

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 EB-08 STR-07 TRSE-00 CIAE-00  
INR-10 NSAE-00 INSE-00 HA-05 XMB-02 /050 W  
-----030969 011046Z /14  
P 010921Z AUG 78  
FM AMEMBASSY JAKARTA  
TO SECSTATE WASHDC PRIORITY 553  
USDOC WASHDC

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DEPT PASS USAID

E.O. 11652: N/A  
TAGS: BEXP, ID, EGEN  
SUBJECT: TRANSMIGRATION EQUIPMENT

REF: (A) JAKARTA 9786 AND PRIOR, (B) JAKARTA 10259

1. SUMMARY. CHARGE AND E/C COUNS CALLED ON MINISTER OF PUBLIC WORKS, DR. IR. PURNOMOSIDI, JULY 31, TO DISCUSS THE STATUS OF THE TRANSMIGRATION PROJECT AND INTEREST BY U.S. EQUIPMENT SUPPLIERS IN THIS PROJECT. PURNOMOSIDI WAS FORTHCOMING AND LEFT NO DOUBT IN OUR MINDS THAT GOI MOVING FORWARD RAPIDLY TO IMPLEMENT AMBITIOUS PROGRAM; HE EXPRESSED HOPE U.S. FIRMS WOULD GET PART OF THE ACTION. TENDERS FOR CONSTRUCTION WILL BE ISSUED IN EARLY AUGUST. END SUMMARY.

2. GENERAL SCOPE OF PROGRAM. PURNOMOSIDI SAID THAT GOI TARGETING TO MOVE 80,000 FAMILIES DURING FIRST YEAR REPELITA III OF WHICH 60,000 WILL BE IN UPLAND AREAS. ACCORDING TO PURNOMOSIDI, GOI INTENDS IN THE FIRST YEAR TO MOVE 2,000 FAMILIES TO EACH OF 30 SEPARATE UPLAND SITES. SITES WOULD BE CHOSEN ON BASIS OF  
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FERTILITY, SLOPE (NO MORE THAN 8 DEGREES) AND ACCESSIBILITY. BY END OF FIVE YEAR PROGRAM, EACH OF THESE SITES ARE TO HAVE A MINIMUM OF 10,000 FAMILIES. THE 2,000 INITIAL FAMILIES IN EACH SITE WOULD BE ENGAGED IN THE INITIAL DEVELOPMENT OF THE LAND, DEVELOPMENT OF IRRIGATION AND ROAD FACILITIES AND STARTING UP FOOD CROPS. IN SUBSEQUENT YEARS, STUDIES WOULD DETERMINE

WHAT OTHER CROPS MIGHT BE ADDED. AS REPORTED REFTEL B, WORLD BANK TRANSMIGRATION LOAN II WILL PROBABLY BE FOR 8 SITES COVERING PRESUMABLY 80,000 FAMILIES. PREPARATION OF OTHER SITES WILL AT FIRST BE UNDERTAKEN BY GOI'S OWN RESOURCES BUT IBRD SUPPORT WOULD BE SOUGHT FOR LATER YEARS. PURNOMOSIDI SAID 20,000 FAMILIES TO BE SETTLED IN LOWLANDS WOULD OCCUPY IRRIGATED SITES FOR WHICH AMPLE CONSTRUCTION EQUIPMENT IS ALREADY ON HAND.

3. SELECTION OF CONTRACTORS. TWO METHODS OF "MOBILIZING" NECESSARY EQUIPMENT FOR UPLAND SITES WERE CONSIDERED BY GOI, FIRST WAS TO CONTRACT BY NORMAL PROCEDURES WITH LOCAL CONSTRUCTION FIRMS WITH PARALLEL MOBILIZATION OF EQUIPMENT TO ENABLE CONTRACTORS TO MOVE AHEAD AT ONCE. THE SECOND WAS TO SELECT CONSTRUCTION CONTRACTORS ON "MODIFIED TENDER TERMS" WITH CONTRACTOR RESPONSIBLE FOR OBTAINING EQUIPMENT HIMSELF. GOI DECIDED ON SECOND PROCEDURE AND TENDERS WILL BE LET EARLY AUGUST. ACCORDING TO THE MINISTER, AWARDS WILL BE MADE AT THE END OF SEPTEMBER. TENDERS WILL BE FOR INDONESIAN CONTRACTORS, "WITH FOREIGN PARTICIPATION". THERE WILL BE RESTRICTION ON WHAT FOREIGN PARTICIPANT THE CONTRACTOR CHOOSES. FOREIGN PARTICIPATION CAN BE BY CONSTRUCTION FIRMS OR EQUIPMENT SUPPLIERS WITH ENGINEERING AND MANAGEMENT EXPERIENCE IN LAND CLEARING WORK. TENDERS WILL BE ISSUED BY DIRECTOR GENERAL OF LIMITED OFFICIAL USE

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HIGHWAYS (BINA MARGA). THERE WILL BE A LIST A LOCAL FIRMS ELIGIBLE TO BID. GOI WAS ENCOURAGING LOCAL FIRMS TO FORM CONSORTIUMS AND EVENTUALLY WOULD CHOOSE 15-30 CONTRACTORS, I.E., ONE CONTRACTOR FOR ONE OR TWO 10,000 FAMILY SITES. AFTER PROJECTS JT UNDYKWAY, GOI PLANS TO REIMBURSE ON PERFORMANCE BASIS SIMILAR TO PROCEDURES FOLLOWED IN HIGHWAY CONSTRUCTION. CONTRACTOR WILL HAVE OPTION TO EITHER LEASE OR PURCHASE EQUIPMENT.

4. LOCAL ASSEMBLY OF EQUIPMENT. TO ENCOURAGE LONG-RANGE ESTABLISHMENT OF LOCAL EQUIPMENT ASSEMBLY CAPABILITIES IN INDONESIA, GOI WILL SET LIMITS ON PER ANNUM ADDITIONS TO EQUIPMENT POOL FOR EACH PROJECT AND WILL AUTHORIZE LEASING/PURCHASING OF ADDITIONAL EQUIPMENT ONLY FROM SUPPLIERS WHO HAVE AGREED (PRESUMABLY IN THEIR CONTRACT WITH CONSTRUCTION FIRMS) TO WORK TOWARDS ESTABLISHING LOCAL ASSEMBLY CAPABILITY.

5. GOVERNMENT GUARANTEE. GOI WILL NOT ISSUE GUARANTEES FOR EQUIPMENT PURCHASES OR LEASING. THE FIVE YEAR CONTRACT TO BE NEGOTIATED WITH THE CONTRACTORS WILL COVER LIFE OF INITIAL EQUIPMENT AND THUS CONSTITUTE A "GUARANTY", THE MINISTER

SAID.

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 INR-10 NSAE-00 EB-08 AID-05  
STR-07 TRSE-00 HA-05 INSE-00 XMB-02 /050 W  
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TO SECSTATE WASDC PRIORITY 554  
USDOC WASHDC

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6. ROLE OF JAPAN. MINISTER CONFIRMED STRONG JAPANESE INTEREST BUT DID NOT ELABORATE ON DETAILS OF OFFERS REPORTEDLY MADE DURING PAST WEEKS. HE DID NOTE, HOWEVER, STRONG LIKELIHOOD OF JAPANESE FINANCING. HE HAD HEARD THAT JAPAN WITH ITS ENORMOUS DOLLAR SURPLUS WOULD BE IN STRONG POSITION TO UNDERWRITE MAJOR PORTION OF EQUIPMENT BUT THAT JAPAN MIGHT NOT SOURCE EQUIPMENT EXCLUSIVELY IN JAPAN BUT WOULD PERHAPS BUY OR LEASE EQUIPMENT IN U.S. FOR USE IN INDONESIA. AS EARLIER WITH AMBASSADOR, PURNOMOSIDI REITERATED HIS PERSONAL PREFERENCE FOR U.S. EQUIPMENT.

7. COMMENT: IT REMAINS TO BE SEEN WHETHER GOI ABLE TO DECIDE ON CONTRACTORS BY SEPTEMBER, BUT INTERESTED U.S. COMPANIES MUST CLEARLY BE READY TO DEAL WITH TENDERS WHEN THEY ARE ISSUED IN AUGUST. AT FIRST GLANCE, COMPANIES WILL HAVE TO FIND WAYS TO WORK CLOSELY WITH INDONESIAN CONTRACTORS WHO WILL BE DESIGNATED ON THE LIST OF ELIGIBLE FIRMS WHEN TENDERS ARE OPENED. GOI OBVIOUSLY INTENDS TO MINIMIZE ROLE OF FOREIGN CONTRACTORS EXCEPT ON JOINT VENTURE BASIS, I.E., GOI LOOKING FOR MANAGERIAL AND TECHNICAL KNOWHOW

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THAT CAN BE CHanneled INTO THE Indonesian FIRMS WHO ARE EXPECTED TO TAKE THE PRIMARY LEAD IN IMPLEMENTING SITE PREPARATION AND DEVELOPMENT. MOREOVER, IT IS EQUALLY CLEAR THAT GOI INTENDS TO USE PROGRAM TO STIMULATE CREATION OF LOCAL ASSEMBLY FACILITIES FOR HEAVY EQUIPMENT. SUPPLIER COMPANIES' WILLINGNESS TO ASSIST IN THIS ENDEAVOR WILL BE AN IMPORTANT FACTOR IN THEIR EFFORTS TO ESTABLISH A SALES/LEASING ARRANGEMENT WITH THE CONTRACTORS. HOWEVER, FINANCING WILL BE MORE IMPORTANT. ALTHOUGH ABSENCE OF FORMAL GOI GUARANTY COMPLICATES SITUATION, EXIM MAY WISH TO CONSIDER SUPPORT TO SUPPLIERS UNDER NEW MEDIUM TERM LOAN POLICY (STATE 129133).

8. COMPANIES. WE ARE ALERTING U.S. COMPANIES HERE OF ABOVE REPORTED DEVELOPMENTS AND SUGGEST WASHING AGENCIES DO SAME.  
GARDNER

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## Message Attributes

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